Different techniques are used to collect the money. Here is how it works for some of the commodities.

—Wool and Mohair: Assessments are deducted from incentive payments paid by the Federal Government to growers. These deductions are $0.04 per pound for wool and $0.045 per pound for mohair.

—Cotton: An assessment of $1 per bale plus 0.6 of 1 percent of the bale's value is collected by the first buyer of cotton from the producer.

—Potatoes: A maximum assessment of 0.5 of 1 percent of the prior 10 years U.S. average price received by growers is authorized. The current assessment of $ .02 per cwt. is collected at the first point of sale.

—Eggs: An assessment of $0.05 per 30 dozen case of eggs is collected at the point of first sale.

—Wheat: An assessment of $0.01 per cwt. of processed wheat is paid by manufacturers.

—Milk: Under the Dairy Promotion and Research Board program, $0.15 per cwt. is collected on all milk marketed by producers with a credit of up to $0.10 allowed for producer contributions to State and regional promotion programs. Assessments under the six milk market order programs are $0.10 per cwt.

—Fruit and vegitable market orders: Assessments are made on handlers. The amounts vary.

New Programs/Proposals

—Honey: Assessments have been recommended at $0.01 per pound for the first year of the program. This rate may be increased by $0.005 per pound per year up to a maximum of $0.04 per pound. A hearing has been held but the program is still subject to approval by producers in a referendum.

—Beef: The Food Security Act of 1985 authorizes an assessment rate of $1 per animal per sale.

—Pork: The Food Security Act of 1985 authorizes an initial assessment rate of up to 0.25 of 1 percent of the value per sale. C

E. C. Pasour, Jr., on Free Trade's Price

U.S. Farmers Can't Have Free Access to World Markets and Price Supports, Too

In the public debate over trade policies, Americans typically portray the United States as a free trade island in a sea of agricultural protectionism. But the U.S. has been throwing up obstacles to free trade with U.S. domestic agricultural policies that date back to the Agricultural Adjustment Act of 1933.

U.S. agriculture has been a perennial albatross in efforts by the United States to liberalize trade. Price supports plus import quotas, export subsidies, deficiency payments, and so on cause the same economic distortions that arise from more familiar protectionist measures such as import taxes. The problem posed by U.S. farm policy in efforts to expand trade and negotiate agricultural trade liberalization through GATT (The General Agreement on Tariffs and Trade) is rooted in the inherent contradiction between domestic price supports and free international trade.

Price supports for farm commodities are incompatible with trade expansion? because import barriers are a necessary appendage of farm policies that hold domestic prices above world price levels. The conflict between domestic farm programs and free trade was apparent when GATT was established in 1947 to liberalize and expand trade. As Thomas Grennes points out in his 1985 Heritage Foundation publication, it is no coincidence that agricultural and other "primary products" are not bound by the GATT principles which generally prohibit import quotas and export subsidies. The United States insisted on special treatment for agricultural products.

The GATT exemption for agricultural products was made necessary by Section 22 of the Agricultural Adjustment Act of 1933, as amended. It requires that the U.S. Government impose quantity restrictions whenever imports would "materially interfere" with the operation of U.S. farm programs.

It is not difficult to see why such protection is required for dairy, sugar, peanuts, tobacco, and other products where domestic prices are held above world price levels. In 1984, for example, domestic prices of U.S. dairy products were two to three times prices in international markets.

Call for "Miami Vice?"

The case of sugar, where the domestic price in early 1985 was more than six times prices in international markets, is even more dramatic. Without rigid import controls for price-supported products, consumers would substitute lower priced imports for domestically produced products. And, the displaced U.S. production would accumulate in government stocks, further undermining farm programs.

That kind of price differential also attracts smugglers. There have been reports in the press of shiploads of foreign sugar entering the United States illegally.

But the U.S.-inspired GATT principles that permit special exemptions for farm products also incorporate limits on how far countries can go in limiting imports to protect domestic support programs. Import quotas are not to be used to reduce imports by more than domestic production is restricted. This means that limitations on imports should not cause the ratio of imports to domestic production to be below the ratio that would exist if there were no restrictions on imports. Thus, if imports would be 20 percent of domestic production in the absence of restrictions on imports, an import quota should not reduce the ratio of imports to domestic production to less than 20 percent.

D. Gale Johnson shows in the December 1984 American Journal of Agricultural Economics that this principle has been "grossly violated" by the United States for a number of products including sugar, dairy, peanuts and beef. In the case of sugar and beef, for example, import quotas exist even though the U.S.

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makes no attempt to reduce domestic production. This has also been the case for dairy except for the recent voluntary diversion program. The peanut program is buttressed by import quotas that virtually exclude peanut imports.

Export subsidies that favor exported products over goods sold on the home market are largely prohibited by GATT. However, agricultural goods are exempt from this ban—with limits. Kenneth Dam's 1970 University of Chicago Press book on GATT points out that subsidies are not to be applied "in a manner which results in (their) having more than an equitable share of world export trade in that product." Equity, of course, is in the eye of the beholder. What producers in the country subsidizing exports consider equitable, producers in competing countries are likely to consider inequitable.

U.S. agricultural interests are highly critical of subsidized agricultural exports by other countries, especially by members of the EEC. However, the United States continues to spend billions of dollars on export subsidies to dispose of surplus farm products under the aegis "Food for Peace." Moreover, the target price and deficiency payments system, similar in effect to export subsidies, permits returns received by U.S. farmers to significantly exceed prices in international markets. This approach insulates U.S. producers from world market prices.

In May 1985, the Reagan Administration and Congress agreed on a $2 billion "export enhancement program" to run through fiscal 1988. The program is aimed at markets that were taken over by competing nations using "unfair trade practices." In view of the U.S. record of subsidizing exports, U.S. criticism of similar policies by other countries is hypocritical.

Smoke For Peace

Although P.L. 480 (the "Food for Peace" program) has been called America's chief weapon in the fight against world hunger, much of its political support comes from its ability, not to fight hunger, but to increase the demand for U.S. farm products. For example, a large amount of P.L. 480 aid to Egypt over the years has taken the form of tobacco.

Export subsidies are inconsistent with GATT objectives. As Kenneth Dams points out, "Whether the motive of the selling country is to aid its own farmers or to aid the recipient country, food aid that preempts the commercial markets of third-country exporters creates an international trade problem and may in the end be deleterious to the interests not only of the international trading community but even of the recipient country itself."

In short, the U.S. has long maintained protectionist trade policies to hold domestic agricultural prices above international market prices. When other countries institute trade restrictions, it should be no surprise that, while contrary to general GATT principles, they are similar to those used by the United States. Our appeals to Japan, members of the EEC, and other countries to open their markets to U.S. products are not credible so long as we maintain protectionist policies for U.S. agricultural products.

Losing the Productivity Edge

Agricultural productivity is increasing rapidly throughout most of the world. It is happening not only in the United States and the European Economic Community, but also in the developing countries. For example, Thailand, Malaysia, and the Philippines have all increased their farm productivity by more than 35 percent during the past decade, according to Dennis Avery of the U.S. State Department.

U.S. policy makers may have little choice but to reform domestic farm programs. Rising farm productivity is placing increasing budget and associated political pressures on protectionist farm programs. Rising productivity yields a progressively higher price tag for U.S. consumers and taxpayers to maintain U.S. price support programs.

Moreover, as export markets become more important, the responsiveness of total demand of U.S. farm products to reductions in output and higher prices increases. Ed Schuh and others argue that the characteristics of demand may be such that with higher prices the total value of U.S. farm products may be less than at low prices. This relationship, of course, does not address the related net return question.

A 50-Year-Old Shelter

It may appear ironic that U.S. agriculture, the world's leading exporter of agricultural products, has been a perennial problem in U.S. attempts to reduce trade barriers. However, much of U.S. agriculture has been sheltered from competitive forces for 50 years. Price supports and the necessary accompanying trade restrictions of import quotas and export subsidies have been used to protect U.S. agriculture from competition by foreign producers.

A recognition that the GATT objective of liberalizing trade is no less appropriate in agriculture than in other sectors is long overdue. The United States acting unilaterally cannot abolish protectionist measures in other countries. This nation can, however, be an aggressive leader in developing international agreements to reduce the level of agricultural protection in all countries and be willing to negotiate U.S. domestic policy. Eliminating (or lowering) farm commodity price supports is in the self interest of the United States because protectionism lowers the level of U.S. production and U.S. exports and imports. It thereby harms consumers and farm producers.

Moreover, it is hypocritical for the United States to criticize other countries for using import controls, export subsidies, and other trade restrictions which this country is also using. U.S. farm policies violating the GATT principle that permits some limitation of imports to protect price support programs are especially egregious.

Greater conformity to GATT principles by the United States is likely to be necessary to encourage other countries to open up world markets for U.S. prod-

More Information

Professor Pasour identifies several publications that you may want to obtain. They include:

"Helping U.S. Farmers Sell More Overseas." It is a chapter written by Thomas Grennes and is included in *Backgrounder*, No. 411, dated February 27, 1985. It is available from The Heritage Foundation, 214 Massachusetts Avenue, NE, Washington, D.C. 20002. Its cost is $2.00.

The GATT: Law and International Economic Organization by Kenneth W. Dam. It was published in 1970 by the University of Chicago Press, 5750 Ellis House, Chicago, IL 60637. Its price is $25.00.

Dennis Avery's paper entitled "The Dilemma of Rising Farm Productivity." It can be obtained by writing Dennis Avery, Bureau of Intelligence and Research, Department of State, Washington, D.C. 20520.

"Domestic Agricultural Policy in an International Environment: Effects of Other Countries' Policies on the United States" by D. Gale Johnson in the 1984 *American Journal of Agricultural Economics.*

ucts. The phasing out of domestic price supports that now raise U.S. prices above world price levels is an important first step in achieving a more open economy and in increasing exports of U.S. farm products.

The United States should phase out price supports forthwith and independently of GATT negotiations to reduce trade barriers. Price supports not only are inimical to trade. They are also ineffective in attaining their primary objective of increasing the long-run profitability of farming.

Two developments are creating additional pressures on the United States, at long last, to make our domestic agricultural policies more consistent with the objectives of GATT.

First, there is growing concern about the cost of farm programs. The U.S. Treasury cost of price and income stabilization programs alone increased from $4 billion in 1980 to some $18 billion in 1985. Second, rising global farm productivity coupled with slow economic growth of many countries has meant lower international farm product prices. These lower prices increase the budget cost of maintaining domestic price support programs.

Thus, increasing competition in markets for U.S. farm products and budget pressures may force U.S. policy makers to do what they heretofore have been unable to do—modify our domestic farm policies to make them compatible with the GATT objective of liberalized trade. C

Gregory Gajewski and Ronald Meekhof on Band-Aids for Banks

Bankers Dream While Regulators Adjust the Rules

The income and equity of commercial banks specializing in farm lending are declining with the farm economy. In 1985, almost 1300 agricultural banks had loan losses of 2.5 percent or more of loans outstanding—a level high enough to wipe out net income at the typical farm bank. Since 1983, returns to agricultural bank equity have been halved. The number of farm bank failures has jumped almost tenfold, and the number of "problem" agricultural banks has quadrupled. The poorest prospects are for farm banks in Iowa, Kansas, Nebraska, Minnesota, and Missouri.

Agricultural banks and their organizations are pressing for Federal assistance. Proponents point to the Farm Credit System (FCS) rescue package, the net worth certificate program for troubled savings and loans, and the 1984 Continental Illinois bailout to justify their case. The relief movement has found support in the Senate among Republicans from farm states. Senators, especially those facing reelection, are concerned about the impact of reduced banking services on rural economies and, in turn, the effects on the elections this fall.

In contrast, the Federal bank regulators—the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (Fed), and the Comptroller of the Currency—have been reluctant to provide aggressive relief to farm banks. They emphasize the potential damage Federal assistance to agricultural banks could have on the safety and soundness of the nation's banking system.

Recent hearings held by the Senate Committee on Banking, Housing, and Urban Affairs and chaired by Jake Garn (R-UT) provided a unique opportunity to clarify the different positions held by the banking industry and the institutions that regulate the banks. There is a great diversity of opinion as to whether relief is needed, and if so, the most effective approach.

The most widely discussed relief measures include:

—Extending the net worth certificate program to agricultural banks;

—Allowing agricultural banks to spread their farm losses over a number of years;

—Subsidizing acquisition of failed banks by healthy banks;

—Implementing various accounting reforms.

The hearings pointed out that, in the extreme, the choice facing policy makers is between: (1) a bank bailout, and (2) faith in market forces. The first would increase risks to the safety and soundness of the banking system while the second could curtail credit for farm and other rural businesses. The challenge is to find a middle ground that facilitates the recovery of banks that are fundamentally viable but experiencing temporary adverse economic adjustments.

System Not Threatened

Even without a relief program, the national commercial banking system can weather the agricultural crisis. However, there remains a remote possibility that confidence in the system could be shaken by failing agricultural banks. These kinds of developments are highly unlikely because institutional safeguards, provided by the FDIC and the Fed—protect the banking system from any runs on rural banks.

Though the nation's banking system is not really at risk, the availability of credit and financial services in rural areas is at issue. Also at issue is: the extent to which bank owners should be held responsible for their lending decisions, the eligibility of troubled banks servicing other sectors for a legislative or regulatory remedy, and the structure and stability of the banking system.

The issues also relate to fairness. Why protect assets of bank owners when farmers have lost a quarter trillion dollars in asset values and tens of thousands have experienced foreclosures and liquidations?

The response is that farm bank aid will ease the transition for farmers. The aim, some say, is to help farmers through their banks, even if it means saving bank owners.

Problem of Overcorrection

Some analysts argue that when mar-

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